

The Evolution Process of Cooperation between Samsung and Nissan over Samsung Motors Inc.

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What factors promote effective cooperation between partner companies an IJV? And how does such cooperation at the corporate level emerge over time? This paper investigates the relationships between partner objectives, ownership and control, task complexity, differences in organization structure and procedure and trust dynamics. The study adopted an ethnographic approach, employing participant observation, interview and document analysis, in order to provide thick descriptions through a deeper understanding of the actual interaction between companies. This research involved longitudinal in-depth immersion in the field so as to uncover the tacit nature of causal relationships and processes. Although the fieldwork seemingly focused on a single company, the study involved the examination of inter-company cooperation amongst Samsung, Nissan, and Renault, comparisons between New Product Development (NPD) projects. Thus, this study draws on multiple qualitative research methods in order to produce a holistic analysis and raise the validity of the empirical findings. Several results help to shed light on the theories of trust and cooperation and their application to inter-firm alliances. The empirical findings are as follows: First, the identification of complementary capabilities at the start is a necessary but not a sufficient condition for partner companies to achieve effective cooperation in an International Joint Venture (IJV). In practice, it is important to give regard to developing a culture of reciprocity and mutual learning so as to sustain long-term, effective cooperation. Further, ownership and control of an IJV have a direct impact on cooperation, through which an IJV becomes similar to its parent companies in organization structure and processes. Nevertheless, the relationship between Nissan and Samsung exemplifies the fact that equity ownership is not a necessary condition for effective cooperation. Second, the developing of trust is critical for effective cooperation. Developing a new cooperation process is necessary because it becomes the basis of the building of trust. Corporate-level commitment and learning play an important role in developing inter-firm trust. Corporate commitment originates from inter-personal relationships and enables trust between functions to emerge. Trust between functions may continue even when inter-company trust is weakened if learning and informal human relationships are maintained. Third, despite the effectiveness of concurrent technology transfer, the organizational capabilities of an IJV are necessary for the implementation of such transfer. The selection of a manageable base platform and the inducing of support from partner companies are prerequisites for an IJV to be successful. Similarity in organization structure and processes between parent companies and an IJV has a positive impact on cooperation.

Key words: Cooperation, Trust, Ownership, IJV, NPD, Automotive Industry

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1. Introduction

This paper investigates the inter-company relationship between Samsung and Nissan employing qualitative research methodology including a longitudinal in-depth involvement in the research subject, i.e. ethnography. However, due to some inherent difficulties, it has been rather rare for management studies to adopt ethnographic approach which can shed light on causal relationships and the context in which cooperation evolves (Chandler, 1962; Burgelman, 1994). In fact, longitudinal case studies are capable of capturing the complexities and dynamics of cooperation and they can provide 'thick descriptions' (Geertz, 1973) of actors' interactions which enables us to better understand the emergence of the cooperative process.

The relationship between the two companies started when they agreed to cooperate over the development of Samsung's first passenger car in 1994. As will be examined in the following sections, the two companies cooperated on an unprecedented scale and scope. In part, it is noteworthy that Samsung, i.e. Samsung Motors Inc. (SMI), and Nissan developed such an intensive cooperative relationship based on the Technical Assistance and License Agreement that did not entail Nissan's ownership involvement in SMI. Still, an intriguing question arises as to the specific circumstances

under which such cooperation evolved between Samsung and Nissan.

Due to changes in the business environment surrounding Samsung and Nissan, the relationship between them entered a new phase in the late 1990s. Nissan entered into a strategic alliance with Renault in March 1999, whereas Samsung filed a court receivership of SMI in June 1999. These two events seemed to result in the end of the relationship between Samsung and Nissan. However, SMI was re-born as a joint venture between Renault and Samsung, i.e. RSM, in 2000, and Nissan has remained the platform provider for RSM based on a technical license agreement. Under the Alliance structure between Renault and Nissan, cooperation between Nissan and RSM still continues, but focuses on the new product development on a limited scale. It is worthwhile to note that the nature of the cooperation between Nissan and RSM has changed substantially from being relational to being an arms' length transactional relationship. Thus, another interesting question arises, namely 'under what circumstances have the cooperative relationship between Samsung and Nissan been transformed over time?'

This paper is set out as follows. First, Section 2 provides the background concerning the evolution of the partnership between Samsung and Nissan. Samsung's persistent effort to enter the passenger car business is viewed as a main driver facilitating Nissan's

support. In the same way, Nissan's situation in the early 1990s, when it suffered from deteriorating performance, is also attributed to another driver that facilitated cooperation. Second, Section 3 examines the negotiation process in reaching the agreement and analyses the nature of the agreement. Third, Section 4 sheds light on how the relationship between Samsung and Nissan changed over time by comparing the one at SMI with the one at RSM. Finally, a conclusion is drawn in Section 5 from the perspective of the relevant propositions.

The investigation shows that sharing corporate level commitment is important in developing long-term cooperation between partner companies. Corporate level support for learning and concrete artefacts, such as top management exchange meetings, facilitate the emergence of trust that reinforces cooperation. Nevertheless, the cooperative relationship between Nissan and Samsung exemplifies the fact that equity ownership participation is not a necessary condition for breeding effective cooperation. Also, a complementary relationship in itself is neither sufficient to breed trust, nor does it lead to effective cooperation unless learning and a corporate commitment exist.

II. Historical Background of Cooperation between Samsung and Nissan

The main purpose of this section is twofold. First, Section 2.1 illuminates the history of Samsung's incessant challenge to enter the passenger car industry. In part, the analysis enables us to understand the process of how Samsung approached its long-standing desire to get into the passenger car business. Nevertheless, the main utility of examining this history is to elucidate the fact that Samsung was eager to learn and keen to develop a partnership with Nissan.

Second, the 1990s was a period when Nissan faced difficulties in management, suffering stagnant sales and losses. Nissan had to streamline its redundant production capacities and employees, including the shutdown of its Zama plant. Ironically, Nissan's hardship worked positively in exploring the possibility of cooperation with Samsung. Although Nissan regarded cooperation with Samsung as one of the three most important agreements in its history up to the late 1990s, it could not turn Nissan from a loss-making into a profitable enterprise. Nevertheless, in part, it provided Nissan with a strategic option to extend its business boundary into Korea and to create a potential opportunity as well.

2.1 Samsung's Entry into the Passenger Car Industry

This section investigates the history of Samsung's entry into the passenger car industry that was a deep-rooted strategy of the Samsung Group. The basic concept of cooperation that Samsung had in mind was to establish a joint venture in Korea between Samsung and a major OEM that could serve both the domestic and the export markets. The reason why Samsung was interested in forming a joint venture was because Samsung believed that equal equity involvement of both partners would draw more attention and attract more support from the parent companies. Samsung looked for exclusive technical support from a partner company, ranging from plant construction to setting up a local supplier base.

In early 1978, Byung Chull Lee, the late chairman and founder of Samsung, had already opened dialogues with Toyota and Volkswagen to discuss possible cooperation. It also considered taking over a domestic OEM, called 'Shin-jin', making Toyota cars under a license in Korea. Samsung was eyeing the passenger car industry as a new business that would follow its successful entry into manufacturing industries, such as electronics (1969) and heavy industries (1974). However, Samsung

concluded that it was premature¹⁾ to run a passenger car business due to an under-developed supplier base and infrastructure within Korea.

Samsung was invigorated once again in 1984 when Chrysler proposed conducting a joint feasibility study to establish a joint venture. The basic idea was to produce Chrysler's small car in Korea and export it to the U.S.A. After negotiating for three years, the relationship between them came to an end in 1987, mainly because Samsung was sceptical about the nature of cooperation with Chrysler. Samsung did not want the joint venture to become a simple production base to produce Chrysler's small cars and it wanted to develop the joint venture into a fully fledged automobile company in the long run. By contrast, Chrysler wanted to narrow the boundary of the joint venture activities producing its small cars. Further, Samsung was not convinced that Chrysler's product and technology was as competent as the Japanese OEMs'.

In order to complement the weakness of a potential partnership with Chrysler, Samsung met Nissan in May 1986, proposing that Nissan should participate in a three-party joint venture with Chrysler and Samsung. Samsung thought that Nissan might benefit from the cooperation in terms of gaining

1) The first passenger car developed by the incumbent local maker, Hyundai, was rolled out in 1975.

access to the Korean market, bypassing its export barrier to the U.S.A. via Korea and taking advantage of the low production cost. In return, Samsung might also benefit from Nissan's advanced engineering capability which would contribute to the improvement of productivity and the increase of production volume, as a result. However, Nissan's response was not positive and, as a consequence, the discussion ended in December 1986. Nissan expressed its scepticism about the worldwide over-supply of small cars, a potential threat from Samsung that might happen due to opportunistic behaviour after the transfer of Nissan technology, and its negative impact on the then existing technical licensing agreement with Daewoo.²⁾

It is worthwhile noting that Samsung was inclined to form a partnership with a Japanese manufacturer rather than a Western company to enter the passenger car business. The high competitiveness of Japanese OEMs was one reason for this. Another reason was that Samsung shared many similar business practices with Japanese companies. The history of business development in Samsung also shows close links with Japanese companies.

In this context, it was natural for Samsung to arrange meetings with Japanese OEMs. In June 1986, Samsung contacted Suzuki, but it quickly concluded that Suzuki was inappropriate

as a partner because it had a limited range of small car models. In September 1986, the late chairman of Samsung met Toyoda Shoichiro, the then chairman of Toyota, confidentially during the latter's visit to Korea as part of a delegation of the Japanese Business Association, Keidanren. Toyota proposed to set up a joint venture between Samsung and Nippondenso, Toyota's subsidiary, in the car components, instead of direct cooperation between Toyota and Samsung to produce passenger cars. Neither Samsung nor Toyota was keen to take the initiative to develop a partnership. On the one hand, Samsung had waited until Toyota suggested cooperation with Samsung. On the other hand, Toyota was sceptical about cooperation with Samsung, partly due to practical difficulties, such as getting a business license from the Korean government and rising production costs in Korea. Once again, Samsung's effort to collaborate with Toyota ended with no result when Nippondenso turned down the feasibility of working with Samsung.

Following unsuccessful negotiations with Japanese manufacturers, Samsung began to look for its partners among European companies from 1987. Fiat and Volkswagen were the first among others. The conversation between Fiat and Samsung did not last for long because Fiat declined any further negotiations

2) Nissan made a technical licensing agreement with Daewoo in January 1986 granting Daewoo the rights to manufacture and sell Nissan's nine-seat van in Korea.

due to fear of Korea's uprising labour union disputes.³⁾ The next European manufacturer was Volkswagen. Volkswagen was interested in catching up with its Japanese competitors in Asia and it needed a business partner. Samsung and Volkswagen started discussion in May 1987 based on the assumption of setting up a joint venture in Korea. Volkswagen was requested to support technologies required for plant construction, production of Audi's premium models and supply of parts. However, the negotiation did not make any progress due to Samsung's concern about the quality and costs and Volkswagen's reluctance to transfer its technologies. In the middle of negotiation with Volkswagen, Samsung also contacted Honda in October 1989. However, Honda notified Samsung that it was not interested in proceeding with further negotiation in February 1990.

In March 1990, Samsung scouted Ju Wha Jeong, the former head of R&D centre of Hyundai, and another senior executive from Hyundai in order to reinforce its long-standing strategy to enter the passenger car industry. On the one hand, they had been maintaining a good relationship with leaders in the passenger car industry and, therefore, were expected to help the passenger car business for Samsung. On the other hand, they had ample experience working in the passenger car

industry and were expected to set up a new strategy replacing the existing one that had proved unproductive in accessing major OEMs. In an interview held in December 2004, Ju Wha Jeong recalls the reason why he preferred partnering with a Japanese company rather than with Western companies:

When I joined Samsung in 1990, it was reported that Samsung had contacted mainly European companies lately. My idea was different because I was convinced that Samsung needed a Japanese partner. First, what is important to Samsung as a beginner in the passenger car industry was the support of a partner for local suppliers. When the partner's suppliers develop business with local suppliers, it is easier for Korean suppliers to communicate with Japanese suppliers than with Western suppliers because Koreans share similar social and business practices and values with the Japanese. For example, when a difficult problem arises, they settle the issue not just in the office, but over dinner and drinks. Such a practice is common to Japanese and Korean people. In fact, my experience tells me that such an approach works well in many cases. However, it is hard to expect that such a relationship can be developed between Korean and Western suppliers in a short-term period. Second, the characteristics and specifications of Japanese products fit better than those of Western products with Korean customers. If we talk only about vehicle performance, European products might have advantages rather than

3) 1987 was the year when Korea was in turmoil triggered by the democratisation fever of the nation

Japanese products. But, if Samsung introduces European models, lots of additional engineering work to modify the specifications is inevitable.

As a new leader of the passenger car project within Samsung, Ju Wha Jeong tried to reopen the dialogue with Toyota and, at the same time, he developed negotiations with Volkswagen, Rover, Triad for electric vehicles and Porsche. In particular, Ju Wha Jeong met Toyota first but Toyota confirmed that it was not interested in developing cooperation with Samsung. Toyota was confident that it could overwhelm Hyundai, the dominant automaker in Korea, if it did its best when necessary.

In the meantime, once again, the passenger car business was reinvigorated when Samsung agreed with BMW to conduct a joint feasibility study in July 1992. BMW's interest in cooperation with Samsung grew substantially from October 1992 to January 1993 over the three meetings. BMW was quite satisfied with the potential of Samsung as partner in a joint venture and the infrastructure of the automotive industry in Korea. However, in December 1993, BMW notified Samsung of its decision to withdraw from discussions in order to build its transplant in the U.S.A.

As described above, on the one hand, Samsung had looked for a major OEM that would be willing to form a joint venture and support it from scratch by providing it with technical resources and expertise. On the

other hand, obtaining the Korean government's approval was another big hurdle that Samsung had to secure in order to enter the passenger car industry. Other domestic passenger car manufacturers did not want Samsung to be in the passenger car industry and Samsung had to confront and overcome them in order to enter the passenger car industry.

Under the circumstances, one of the Samsung's manufacturing affiliates, Samsung Heavy Industries, Co. Ltd. (SHI), made a licensing agreement with Nissan Diesel for the production of heavy-duty trucks in June 1990. Although Nissan Diesel was a subsidiary of Nissan, it was specialised in the manufacturing of heavy-duty commercial vehicles. Thus, the agreement between SHI and Nissan Diesel did not have any direct influence on the passenger car. In the middle of public controversy about Samsung's entry into the commercial vehicle industry, in August 1990, the Korean government deferred making a decision until October 1991 whether to allow Samsung's entry into the commercial vehicle industry. One main reason against Samsung's entry into the commercial vehicle industry was that it would aggravate the commercial vehicle market situation that suffered from over-supply. In hindsight, however, Korean domestic automobile manufacturers were against SHI's entry because it would naturally lead to Samsung's entry into the passenger car industry. In July 1992,

〈Table 1〉 History of Samsung's Entry into the Passenger Car Industry

Year	Events
1978	Considering Acquisition of Shin-Jin, domestic OEM Contact with Toyota and Volkswagen
1984	Contact with Chrysler
1987	Contact with Fiat and Volkswagen
1989	Contact with Honda
June 1990	Technology Licensing Agreement (for Truck) between Nissan-Diesel and Samsung Heavy Industries
July 1990	Submission for the Korean Government's Approval
August 1990	Refusal of Application by the Korean Government
June 1992	Re-submission for the Korean Government's Approval
July 1992	Permission of the Korean Government
1992	Contact with BMW
1993	Contact with Peugeot
1993	Approval for Passenger Car Investment by Samsung Group's Supreme Operation Committee
April 1994	Signing of the Technical Assistance and License Agreement with Nissan (Passenger Car)
December 1994	Acceptance of the Application by the Korean Government
March 1995	Establishment of Samsung Motors Inc. (SMI)
November 1996	Completion of the Busan Plant Construction
March 1998	Start of Sale (Model: SM5)

Samsung resubmitted the application for the Korean government's approval and finally obtained permission to produce a commercial vehicle. Table 1 below summarises the timetable of Samsung's endeavours to enter the passenger car industry.

2.2 Nissan's Position in the Early 1990s

Although Nissan was founded in 1933, it was not until the late 1950s that it started to

expand its business scope to overseas markets on a large scale. It started to export to the U.S.A. as early as 1958, followed by the setting up of its own overseas production bases in strategic locations during the 1980s, including the one established in 1961 in Mexico. It went to Spain through equity participation in 1980, built its transplant in the U.S.A. in 1980, and solely invested in the U.K. in 1984. In the Asia-Pacific region, its first overseas knockdown assembly plant started

production in 1959 in Taiwan, followed by the acquisition of an equity interest in 1985. In March 1976, Nissan started a full-scale production in Australia which was only to last until October 1992. Nissan also acquired an equity interest in a Thai company in 1991 and established a joint venture for light truck production in China in 1993.

In Korea, the first presence of Nissan goes back to the mid-1960s when a Korean assembler produced Nissan's 'Bluebird' model under a licensing agreement until the late 1960s. Nevertheless, foreign companies, including Nissan, had no chance of penetrating the Korean market by operating their own production bases or exporting their own cars. The Korean market had been protected by the government's industrial policy and even the import of foreign cars was not allowed until the end of 1986. In 1987, Nissan managed to grant a license for Daewoo to produce Nissan's light commercial vehicle, Vanette.

In the domestic market in Japan, Nissan once took a 33 per cent market share in the early 1970s, but after that point of time its domestic sales has been outweighed by its archrival Toyota. In order to narrow the gap with Toyota, Nissan proliferated its product lines excessively with heavy investment until the late 1980s especially when Japan had fallen into the illusion that is called the

bubble economy. An after-effect happened in the early 1990s, continuing for almost a decade until it was engaged in a strategic alliance with Renault in 1999. In order to achieve 1.5 million unit sales in Japan in the late 1980s, Nissan planned to invest 500 billion Yen in its domestic sales network and 200 billion Yen in its manufacturing facilities.⁴⁾

Table 2 highlights the deteriorating financial conditions of Nissan in the 1990s, partly due to excessive investments. As evidence, during the period between 1990 and 1997, Nissan's plant and equipment assets increased by more than 65 per cent from 2,134 billion Yen to 3,523 billion Yen. Similarly, its total liabilities soared by over 40 per cent from 4,612 billion Yen to 6,574 billion Yen during the same period. In detail, short-term debt surged by more than 55 per cent between 1990 and 1997, whereas long-term debt almost doubled between 1990 and 1993 from 1,205 billion Yen to 2,368 billion Yen. However, the debt level had dropped sharply since 1999, mainly due to the new management team's drastic restructuring plan. By 2004, both the level of debts and of assets increased again and the total liabilities had recorded their highest level, more than 7,000 billion Yen, since the 1990s. Nevertheless, unlike the 1990s, when Nissan suffered a high debt burden with non-performing assets, Nissan's

4) Source: 'Nissan Motor Co., Ltd., 2002', Harvard Business School case developed by Professor M. Yoshino and Ms. M. Egawa.

〈Table 2〉 Nissan's Balance Sheets 1990 - 2004

	1990	1991	1992	1993	1994	1995
Property Plant & Equipment	2,134	2,525	2,814	3,094	3,341	3,130
Short-Term Debt	1,718	1,447	1,784	1,669	1,722	1,799
Long-Term Debt	1,205	1,835	2,009	2,368	2,210	1,929
Total Liabilities	4,612	5,192	5,410	5,706	5,740	5,712
	1996	1997	1998	1999	2002	2004
Property Plant & Equipment	3,432	3,523	3,029	2,848	2,989	3,797
Short-Term Debt	1,870	2,673	2,025	1,317	1,315	1,926
Long-Term Debt	1,969	1,670	1,592	1,656	1,603	1,867
Total Liabilities	6,099	6,574	5,641	5,524	5,261	7,001

Note: Units are in billion Yen.

Source: Thomson Database.

current financial performance is solid.

Table 3 further indicates the poor financial performance of Nissan in the 1990s before making a turnaround after 2000. Consolidated sales revenue was stagnant and net income finally turned into the red in 1992. The scale of losses became larger and reached a 166 billion Yen in 1994. Nissan recorded losses for 7 consecutive years until 1999 except for 1996. Non-consolidated sales that account for Japanese domestic sales also plummeted from 4,175 billion Yen in 1990 to 2,997 billion Yen in 1999 dropping by almost 30 per cent. Nissan never recovered its previous sales level of the early 1990s until 2004. In addition, Nissan's consolidated operating margin kept sliding down until 1995 from a 2.9 per cent level achieved in 1990. It dropped to a negative level in 1993 and 1994, and did not reach a 2 per cent level until

1999 except for 1996.

In June 1992, the top management of Nissan was changed as Yoshifumi Tsuji succeeded Yutaka Kume to become the 13th President of Nissan. The new president continued making efforts to cut expenses and streamline the number of models and parts. Nissan shut down one of its major plants in Zama and reduced employees steadily, as shown in Table 4. Nissan cut the number of employees by 45 per cent in Japan from 56,873 in 1990 to 31,389 in 2003, while the total number of employees worldwide also decreased from 138,326 in 1990 to 123,748 in 2003.

Despite Nissan's restructuring effort its situation had not improved substantially during the 1990s until Nissan made a drastic turnaround from 2000 under the new leadership of Carlos Ghosn, Nissan's new C.E.O. dispatched by Renault. Nissan was reborn as a

〈Table 3〉 Summary of Nissan's Financial Performance 1990 - 2004

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Note: Units are in billion Yen.

Source: Thomson Database.

financially viable company recording 10.8 per cent of operating margin in 2002 and 10.0 per cent in 2004.

Under the circumstances in the early 1990s, Nissan needed a breakthrough to turn around its situation. This was also the time when Samsung was desperately looking for a partner to enter the passenger car industry in Korea. Ironically, Nissan's devastating financial situation made it open-minded in

dealing with Samsung. From its own viewpoint, Nissan had room to mobilise its internal slack engineering resources, including its engineers, for the possible collaboration with Samsung because it was in the middle of downsizing its operation in Japan.

Table 5 further exhibits how difficult Nissan's management environment would have been as its financial performance was so poor in the early 1990s, especially when compared to

〈Table 4〉 Number of Employees in Nissan

	1990	1991	1992	1993	1994	1995
Japan	56,873	55,566	53,071	51,398	49,177	44,782
Worldwide	138,326	143,916	143,754	143,310	145,582	139,856
	1996	1997	1998	1999	2002	2004
Japan	41,266	39,969	39,467	32,707	31,128	31,389
Worldwide	135,331	137,201	131,260	136,397	127,625	123,748

Source: Annual report, Yuka Shoken Hokokusho.

that of Toyota. Nissan's sales revenue remained between 60 and 63 per cent of Toyota's until 1993, but the gap became larger over time as Nissan's sales revenue dropped to a level between 51 and 56 per cent of Toyota in the second half of the 1990s. The gap has been magnified since 1999 as Nissan's sales revenue dropped to merely 42 to 46 per cent of Toyota's. When comparing Nissan's net income weight out of sales revenue with that of Toyota in the 1990s, Nissan's was much lower than that of Toyota and the comparison became meaningless from 1992 to 1999 because Nissan posted net losses for the next 7 consecutive years until 1999 except for 1996.

III. Process of Negotiations and Reaching the Agreement

This section investigates the process of the developing relationship between Samsung and Nissan. Section 3.1 analyses the early phase of the relationship between the two companies. In particular, it highlights the process of narrowing the gap of perception and sharing the common ground from which the two companies could build the cooperative relationship by reaching the Technical Assistance and License Agreement. Section 3.2 analyses the nature of the agreement between the two companies. In particular, this

〈Table 5〉 Comparison of Nissan's Sales & Net Income with Toyota's

	1990	1991	1992	1993	1994	1995
Sales Revenue of Nissan	5,965	6,418	6,198	5,801	5,834	6,039
Sales Revenue of Toyota	9,855	10,163	10,211	9,363	10,462	10,719
Net Income of Nissan	49	101	(56)	(87)	(166)	(88)
Net Income of Toyota	432	238	177	126	163	257
Net Income Rate of Nissan(%)	0.8	1.6	(0.9)	(1.5)	(2.8)	(1.5)
Net Income Rate of Toyota(%)	4.4	2.3	1.7	1.3	1.6	2.4
	1996	1997	1998	1999	2002	2004
Sales Revenue of Nissan	6,659	6,565	6,580	5,977	6,829	8,576
Sales Revenue of Toyota	12,244	11,678	12,749	12,880	16,054	18,551
Net Income of Nissan	78	(14)	(28)	(684)	495	512
Net Income of Toyota	386	454	356	407	945	1,171
Net Income Rate of Nissan(%)	1.2	(0.2)	(0.4)	(11.4)	7.2	6.0
Net Income Rate of Toyota(%)	3.2	3.9	2.8	3.2	5.9	6.3

Note: Numbers are all consolidated basis and units are in billion Yen.

Source: Thomson Database.

section elucidates the relational aspects of the agreement in comparison with the agreement signed for the second product, SM3, between Nissan and RSM. Section 3.3 sheds light on how the two companies further developed cooperation in addition to the agreement through the top management level as well as through operational level collaboration.

3.1 The Developing Relationship between Samsung and Nissan

In early 1991, Ju Wha Jeong and another senior executive visited Nissan in order to initiate a cooperative relationship between the two companies. Nissan's counterpart was Minoru Nakamura, General Manager of Asia-Oceania Marketing Division, but he did not pay any attention to Samsung. He did not mention even a word during the first one-hour meeting. Facing this, somewhat disappointing response from Nissan, Samsung almost gave up developing a communication channel with Nissan. Nevertheless, Samsung knew that Japan was entering the recession period from the early 1990s and continued its effort to open the dialogue with Nissan.

One year later in early 1992, Samsung finally succeeded in contacting Nissan again through a Japanese trading firm, Marubeni Corporation's Seoul office. Marubeni had been maintaining a long-lasting business relationship with Nissan. For example, Nissan and

Marubeni co-established its overseas operation in Mexico in the 1960s. Marubeni's General Manager, who was in charge of the machinery division, was reported by its Seoul office about the intention of Samsung and decided to meet Samsung in Korea first. Samsung persuaded Marubeni, emphasizing that it would like to build a long-term partnership with Nissan rather than a short-term business relationship. Convinced of Samsung's resolution to enter the passenger car industry, Marubeni responded to Samsung that it would be willing to arrange a meeting with Nissan. Coincidentally, Samsung was especially fortunate to draw Marubeni's positive response when it discovered that the general manager from Marubeni's headquarters had, in fact, been born in Korea during the Japanese occupation era at the same place where Samsung's passenger car project team was located.

With Marubeni's assistance, Samsung had another chance to meet with Nissan in 1992 in Tokyo. On behalf of Nissan, Minoru Nakamura and Yoshi Iwashita, both from the Asia-Oceania Marketing Division, met the delegation of Samsung. Unlike the first meeting a year earlier, the result of the second meeting was promising. In part, it was the time when Nissan's financial performance was deteriorating, on the one hand. And the influence of the overseas marketing people, who were more aggressive in exploring the partnership with Samsung than the engineers,

was gaining power inside Nissan, on the other hand. In the meeting, Ju Wha Jeong argued purposefully about the reason why Nissan had changed its mind to talk with Samsung. In fact, the background of Ju Wha Jeong's comment was quite intentional in order to draw more attention from Nissan in its discussions with Samsung. He then stated his vision of the relationship between the two companies that Samsung wished to build in a long-term cooperative relationship with Nissan. He emphasized the importance of Nissan becoming a teacher for Samsung first so that Samsung could contribute to Nissan's benefit in the long run. In order to convince them of his vision, Ju Wha Jeong cited the case of the successful cooperation between Hyundai and Mitsubishi that followed the path that he proposed to Nissan. It was Mitsubishi as the teacher that had licensed its engine technology to Hyundai in 1973, seeing Hyundai grow in its engineering capability enough to co-develop the largest passenger car model, Debonair, with Mitsubishi in 1985. Indeed, Ju Wha Jeong was at the centre of the joint development project at Hyundai, working closely with Hirokazu Nakamura, the then head of the centre for passenger car technology at Mitsubishi, who became president in 1989 and chairman of Mitsubishi in 1995. The joint project turned out to be beneficial and satisfactory for both companies.

After the second meeting, Nissan's attitude

changed positively. In an interview held in December 2004, Ju Wha Jeong recalled that:

I heard later that president Tsuji ordered Yoshi Iwashita to proceed with the feasibility study with Samsung positively. Since many in Nissan were still sceptical about cooperation with Samsung, president Tsuji asked Yoshi Iwashita to report the proceedings directly to him. Through discussion with Samsung, Nissan started to understand the vision and scheme of cooperation initiated by Samsung and to share the common view that both companies could complement with each other by developing a long-term partnership.

Nissan's financial difficulties in the 1990s, combined with Samsung's proposal to nurture the relationship on a long-term basis, were one motive that caused Nissan to consider cooperation with Samsung positively. Nevertheless, it was not the sole reason why Nissan agreed with Samsung to enter the cooperative relationship. It was unclear why the Nissan president was supportive of talking with Samsung. In order to answer this question it is worthwhile to introduce the anecdote that shows the importance of a human relationship that had been developing over time between Ju Wha Jeong and Hirokazu Nakamura. It appears that the relationship between the two at Hyundai and Mitsubishi, respectively, had little impact on developing the relationship between Samsung and Nissan. However, to some extent, the long-term human relation-

ship cultivated between the two people over time had a positive impact on Nissan to enter partnership with Samsung. Ju Wha Jeong recalls that:

On the day when we signed the agreement, the Nissan president Tsuji approached me saying that he had heard about me from Mr. Nakamura. As I was not perfect in understanding the Japanese language, I did not recognise at the time that which Mr. Nakamura he (Mr. Tsuji) had mentioned. I simply guessed it would be Minoru Nakamura at Nissan, who had been involved in negotiations with us. However, it was not known until later when I personally met with the president of Mitsubishi, Hirokazu Nakamura. I was told that he strongly recommended the Nissan president to work with me when the Nissan president had asked him about the past experience between Hyundai and Mitsubishi at one meeting among the presidents of the Japanese automakers.

Samsung and Nissan proceeded with negotiations while conducting a feasibility study to set out the scale and scope of the possible support of Nissan. Upon the request of Samsung, Nissan agreed to provide its mid-sized car, which was under development during the negotiation period. As Nissan was restructuring and streamlining its slack production capacity and engineers when Nissan and Samsung underwent negotiation, Samsung

was able to take advantage of Nissan's position that could provide intensive support. In April 1994, Samsung and Nissan finally reached the Technical Assistance and License Agreement.

3.2 Analysis of the Agreement: Comparison between SM5⁵⁾ (Nissan and Samsung) and SM3⁶⁾ (Nissan and RSM)

A legally binding agreement plays an important role as a basis of understanding the business relationship between Nissan and Samsung. Three primary traits constitute the agreement (Macneil, 1974). First, the agreement sets out the division of labour and exchange between the partners. Second, the agreement is based on the concept of free will to choose among a range of behaviours. Third, the agreement builds not only on a conscious awareness of the past and present, but also the future. That is, the agreement is the projection of an exchange into the future manifested in the form of a promise.

As such, the Technical Assistance and License Agreement for SM5 outlines the scope and terms and conditions of Nissan's technical assistance, including the royalties and assistance fees to be paid by Samsung to Nissan. The scope of Nissan's assistance specified in

5) The first model was produced by SMI from 1998.

6) The second model was launched in 2002.

the agreement is wide-ranging from the development of product, SM5, localisation of components, dispatching Nissan engineers, training Samsung personnel at Nissan plants and plant construction to the preparation of production and plant management. In order to gauge the nature of the cooperation from the perspective of the agreement, this section develops an analytical framework and then takes a detailed look at the agreement for SM5 between Samsung and Nissan in comparison with the agreement for SM3 between Nissan and RSM.

In theory, the agreement can be classified into two ideal cases, either transactional or relational, although the notions of both transactional and relational agreements involve economic exchange. A transactional agreement tends to focus on present commercial exchange, whereas a relational agreement includes a relatively deeper level of communication and non-economic satisfaction of the partners. According to Macneil (1974), a transactional agreement emphasizes transactional characteristics such as monetization and concrete promises that are documented specifically in the agreement. In contrast, a relational agreement emphasizes relational characteristics such as cooperative aspects of the present and future of the relations (Macneil, 1974). Table 6 below, originally developed by Macneil (1974), demonstrates the distinction between the two ideal cases of agreements, i.e. trans-

actional and relational, according to various dimensions. In spite of limitations, it provides an informative analytical schema.

A transactional agreement tends to cover a specific economic exchange based on limited, formal communication, whereas a relational agreement deals with a wider range of subjects, even non-economic aspects, on the basis of both formal and informal communication. In general, a transactional agreement specifies a concrete, entirely binding exchange with expressed obligations to be undertaken, whereas a relational agreement implies more than what is expressed in writing. Inherently, a transactional agreement is more concerned with the present, short-term monetization of exchange without any consideration for long-term cooperation. In contrast, a relational agreement is long-term in duration and the success of the relation depends on further cooperation between the parties. Economic benefits and burdens of exchange are relatively difficult to calculate in a relational agreement as the relationship itself develops over time.

Overall, a transactional agreement recognises only a specific economic exchange clearly, with a start and termination date, and thus does not expect unspecified altruistic behaviour. By contrast, in addition to the recognition of economic exchange, a relational agreement takes into account future-oriented altruistic behaviour and the developing process of the relation between the partners.

〈Table 6〉 Characteristics of Transactional and Relational Agreements

Dimension	Transactional	Relational
1. Overall relation type - Type of communication - Subject matter	Formal, limited Economic exchange only	Extensive, deep, informal / formal Both economic and non-economic
2. Measurability of exchange	Money (royalties)	Relatively difficult to monetize
3. Duration	Short-term	Long-term
4. Start and termination	Clear by agreement	Gradual by relation
5. Planning - Focus of planning - Completeness & Specificity - Bindingness	Substance of exchanges Very complete and specific Entirely binding	Structure and process of relation Limited specific planning May be binding (often tentative)
6. Future cooperation	Almost non-required	Success of relation dependent on further cooperation
7. Benefits / Burdens	Shifting possible	Undivided sharing
8. Obligation undertaken	Genuinely expressed	Relation itself develops obligations
9. Participant views - Recognition of exchange - Altruistic behaviour - Time-sense	High None expected Presentation of the future	Low Significant Futurizing of the present

Source: Macneil (1974: p.738-740).

Both the Technical Assistance and License Agreement for SM5 and the License Agreement for SM3 are primarily based on the economic transaction. According to the dimensions of Table 6, the SM5 agreement seems to be less transactional than the SM3 agreement because Nissan and Samsung organised multiple, extensive communication channels for cooperation formally and informally, whereas Nissan and RSM relied on a limited, formal channel for communication. The main purpose of both agreements was to provide Nissan's products to Samsung and

RSM, but, as was expressed explicitly, the SM5 agreement put much emphasis on the partners' long-term relationship. In contrast, the SM3 agreement is primarily focused on short-term economic exchange. Both agreements clearly denote the concrete terms and conditions of paying royalty to Nissan. In the case of the SM3 agreement, the economic remuneration, i.e. the royalty payment, is straightforward, as it is the only and entire method of exchange. However, measuring the entire exchange relationship between Nissan and Samsung is difficult. In part, one reason

is that the exact monetization of Samsung employees' training at Nissan plants and dispatched Nissan engineers' contribution to Samsung is almost impossible to calculate.

In terms of duration, the two agreements set out the commencement and termination of the agreements clearly, even though the duration of SM5, i.e. 8 years, is relatively longer than that of SM3, i.e. 6 years. As the articles and clauses of the agreements indicate, the SM3 agreement specifies substances of exchanges concretely, whereas the SM5 agreement adds working procedures between the partners on top of the existing conditions of the SM3 agreement. Further, the SM5 agreement is less specific, while leaving room for further discussion between the partners in order to decide the level and depths of cooperation, such as the training of Samsung employees and the dispatching of Nissan engineers to Samsung. Overall, the SM3 agreement is more binding, based on specifically defined clauses, than the SM5 agreement, which is often open-ended in specifying the conditions. Thus, the success of the relation in the SM5 agreement depends on the future cooperation between the partners, whereas further cooperation apart from the agreement is not necessarily required for the SM3 agreement.

The portion of each partner's benefit, burden and obligation is expressed relatively explicitly in the SM3 agreement. For example, Articles 7, 8 and 10 of the SM3 agreement clarify

such benefit, burden and obligation when improvements, intellectual property and warranty matter between Nissan and RSM. To some extent, the benefit, burden and obligation between the Nissan and Samsung are also expressed in the SM5 agreement. In particular, the division of labour between the partners for the product development tends to be clearly defined in the agreement, whereas the localisation of parts and plant construction and management are the areas where a clear division of labour is inherently difficult to specify.

Although Samsung paid royalties in return for the assistance and support of Nissan for the development of SM5, the SM5 agreement did not specify all the other types of extensive cooperation between the partners. Short-term economic exchanges were not recognised as a main purpose of entering into the partnership between Nissan and Samsung. Such a long-term cooperative spirit was genuinely expressed in the SM5 agreement. For example, the SM5 agreement clearly states in the beginning that:

Both parties believe that it is in their common interests to establish a long-term strategic cooperative relationship envisaging a global and complementary collaboration for long-term mutual benefit. Samsung desires that Nissan will provide its support to Samsung so that Samsung may develop by itself its own vehicles, which, Samsung believes, contributes

to and enhance both parties' cooperative relationship. Acknowledging the parties' desire to form a long-term relationship, Nissan is willing to provide the aforementioned assistance, documentation and authorization to Samsung...

In contrast, the SM3 agreement was focused on the detail of economic exchange conditions, trying to specify possible future contingencies. Following the same framework of Table 6, Table 7 summarises the result of the comparisons, indicating that the cooperation between Nissan and Samsung for the

SM5 agreement was relatively relational (or less transactional) compared to the SM3 agreement between Nissan and RSM.

3.3 Beyond the Agreement between Samsung and Nissan

Despite the usefulness of the comparison provided in Table 7, some factors should be considered further in order to elucidate the nature of the agreement. In fact, reality is much messier and more complicated than

〈Table 7〉 Comparison between the SM5 Agreement and the SM3 Agreement

Dimension	SM5 Agreement between Nissan and Samsung	SM3 Agreement between Nissan and RSM
1. Overall relation type - Type of communication - Subject matter	Less transactional (relational) Extensive, informal / formal Both economic and non-economic	More transactional Formal, limited Economic exchange
2. Measurability of exchange	Royalties, non-monetary relationship	Royalties
3. Duration	Relatively long (8 years)	Relatively short (6 years)
4. Start and termination	Clear by agreement, but assumes further cooperation in the future	Clear by agreement
5. Planning - Focus of planning - Completeness & Specificity - Bindingness	Exchanges, process of relation Not always complete and specific Binding, but some clauses (e.g. Articles 3, 6, 8 and 9) are tentative	Exchanges Very complete and specific Entirely binding
6. Future cooperation	Clearly expressed	Not mentioned
7. Benefits / Burdens	Mostly divided, but some are shared	Divided
8. Obligation undertaken	Expressed, with room for compromise	Expressed clearly
9. Participant views - Recognition of exchange - Altruistic behaviour - Time-sense	Low Significant Long-term perspective	High None expected Present-oriented

such a dyadic distinction and it is necessary to dig into the deeper layer of agreement. The term 'relational' implies that the agreement is not just what is written down and the more relational it is the less informative the written agreement is on its own. If so, it is likely that a relational agreement would be shorter than a transactional agreement in length because a relational agreement does not have to specify all the details in writing, whereas a transactional agreement needs to do so. Also, if the relationship between the partners is relational, actual collaboration between the partners might start even before an agreement is signed. By contrast, if the relationship between partners is transactional, collaboration is supposed to begin only after the agreement is made effective.

Contrary to the allegations in Table 7, however, the puzzle remains because the agreement for SM3 looks more relational than the agreement for SM5. First, the length of the agreement for SM5 is longer than that for SM3 specifying the detailed conditions of cooperation as well as the cooperative spirit. For example, Article 12 of the agreement for SM5 describes the initial condition of cooperation for the establishment of working procedures. Due to such detailed description, the agreement becomes lengthy and, more importantly, the nature of the cooperation seems to be more transactional than relational. Second, the sequence of the

agreement and the implementation of cooperation between the partners suggest that the agreement for SM3 may be more relational than that for SM5. In part, the reason is that the SM3 project had kicked off already in October 2000, even before the memorandum of understanding between Nissan and RSM was signed in March 2001. Further, the agreement for SM3 was actually signed in December 2003, well after the SM3 product started to be produced in July 2002. It can be argued that such a sequence would not have been possible if the relationship between Nissan and RSM had not been relational. On the contrary, the case of SM5 shows that collaboration between Nissan and Samsung started from 1995, following the agreement for SM5, which was signed in April 1994. This means that cooperation between Nissan and Samsung for the SM5 development project was possible based on the agreement signed beforehand. Thus, on this indicator alone, it appears as though the agreement for SM5 were transactional.

However, it is premature to conclude that the agreement for SM3 is relational, whereas the agreement for SM5 is transactional, without considering the root causes. First, the length of the agreement can vary significantly depending on which party drafts the agreement. Embedded country and firm specific legal tradition and culture can result in significant differences in documentation pro-

cedures and styles. Sako (1992) develops a legal framework comparing the U.K. and Japanese legal traditions, whereas Lane and Bachman (1997) study the U.K. and German legal traditions (Sako, 1992; Lane and Bachman, 1997). For example, it is not unusual to document details and preambles in legal agreements in Japan. The agreement for SM5 is a case in point because Nissan drafted it. The agreement specifies not only the detailed conditions, e.g. Article 12 for the establishment of working procedures, but also the historical background of the negotiations. Similarly, the agreement for SM3 was drawn up by Renault, and therefore reflects the French legal tradition that is less descriptive compared to that of Japan. For example, Renault does not have a detailed written project management manual. Instead, it keeps a short list of meta-rules from which applications can be made. Thus, judging the nature of the agreements on the basis of the length of documentation has limits. What decides whether an agreement is relational or transactional is not the length of the agreement, but the underlying spirit or belief in sharing unspecified aspects between the partners. In this sense, the agreement for SM5 is more relational than that for SM3.

Second, investigation of the process by which the partners reached the signing of the agreement sheds light on whether the agreement is relational or transactional. In the

case of the agreement for SM5, the agreement was signed as a pre-condition for Samsung to obtain the Korean government's approval. As Article 17 about the effective date and term implies, the effective date of the agreement was set to begin on the date when the Korean government gave a go-ahead signal to Samsung. Thus, it is not reasonable to interpret the agreement as transactional because the implementation of the agreement started after the signing of the agreement. Rather, the agreement is relational considering that Nissan and Samsung went into agreement in a situation where Samsung could not guarantee the Korean government's approval. In a similar vein, the process of negotiation to reach the agreement for SM3 reveals that the counsels of Nissan and Renault, on behalf of RSM, had not reached the final agreement for SM3 until December 2003. In an interview in March 2003 in Paris, Jean-Benoit Devauges, Counsel of International Legal Affairs in Renault, who was directly in charge of legal agreement documentation, revealed that:

The document (for agreement) is ready but it has not been signed yet due to warranty issues. RSM has not yet paid licensing fees (royalties) to Nissan because the licensing agreement is not signed. Nissan's position is that it does not want to bear responsibilities for warranty, design defects, recall, infringement claims or anything should problems

arise. The reason is that the vehicle (SM3) was modified (with restyling and re-engineering) by RSM. Nissan considers that the SM3, as modified by RSM, is not the product which originated from Nissan any more. I do not think Nissan is willing to bear any significant financial burden that might happen in the future.

By contrast, Hidenori Tsukamoto, Senior Manager of Nissan, who has been involved in the cooperative projects for Samsung and RSM since 1998, put in an interview in April 2004 in Tokyo that:

Normally, it is definitely impossible for Nissan to license the rights and provide technical information without any written agreement. The reason why we provided RSM with all the necessary technical information even without the agreement is that RSM is one of the companies under the Alliance structure between Renault and Nissan. To be honest, there were a lot of disputes regarding responsibilities on product liability and recall issues between Renault and Nissan. And it took more than a year to reach the agreement. We (Nissan) were displeased because we did not agree with each other, leaving the agreement incomplete. The performance of the legal counsel of Renault was really unsatisfactory and slow.

The statements above indicate that Nissan and RSM collaborated for the SM3 project, on the one hand. On the other hand, Nissan

and Renault, on behalf of RSM, underwent a series of tough negotiations to narrow the gap in the terms and conditions over warranty issues before the signing of the agreement. Clauses such as, warranty, intellectual property and product liability deal with unrealised future responsibilities that will lead to potential economic burden, in particular. Thus, how the partner companies set the principle on such clauses must be one of the critical yardsticks for deciding the nature of the agreement. Numerous track changes marked on warranty clauses in draft agreements⁷⁾ between the lawyers of Nissan and Renault indicate the transactional nature of the relationship between Nissan and RSM. The agreement for SM5 deals with such issues briefly, e.g. Article 21 about disclaimer and no liability, despite criticism by Renault counsels that the agreement was unbalanced. In contrast, the agreement for SM3 is specific in describing the detailed aspects of warranty and intellectual property, i.e. Article 8 about intellectual and industrial property, and Article 10 about warranty. In summary, the investigation of the process of negotiation leading to the signing of the contract indicates that the nature of the agreement for SM5 is close to the relational, whereas that for SM3 is close to the transactional ideal type.

7) A draft agreement reveals that the gap in standpoints of both companies was not negligible.

On the one hand, without Nissan's extensive support and involvement, it would not have been possible for Samsung to launch its first passenger car at its newly built Busan plant. On the other hand, in return for support and assistance, Samsung paid royalty and assistance fees that were estimated to reach 30.7 billion Yen to Nissan. In addition to income from royalty and fees, Nissan's economic benefit accrued as Nissan was also able to apply its resources to Samsung. First, Nissan's subsidiary, e.g., Nissan Koki, was chosen as the supplier for plant equipment following Nissan's strong recommendation. Second, Nissan dispatched more than 200 engineers and technicians at least for more than 6 months to Samsung. Otherwise, they would have been left redundant as a result of the restructuring in Nissan. Third, Nissan set up a pilot plant for Samsung at Zama plant that was shut down for commercial production in 1995.

It is noteworthy that short-term economic considerations were not the main driver of cooperation between Samsung and Nissan. In fact, as is estimated in Table 8, the direct economic benefit that Nissan acquired from cooperation with Samsung was not sizable enough to offset a net annual loss of Nissan in the 1990s. Similarly, Samsung was not always satisfied with Nissan's recommendation

for investment. For example, the costs charged for die and jig, manufactured by Nissan Koki, were much higher than those charged by other suppliers by 20 to 35 per cent.

Nevertheless, from the perspective of Nissan, dispatching its engineers and utilizing the closed plant for Samsung was rewarding because Samsung paid Nissan for such service and provided the best support for Nissan engineers dispatched to Samsung. From the perspective of Samsung, receiving experienced Nissan engineers and training its workers at Nissan plants were all priceless learning experience as Nissan engineers served as mentors or teachers for inexperienced Samsung employees in almost all areas. Cooperation between Samsung and Nissan provided them with a motive to develop the cooperative relationship further because both companies realised that the relationship between Samsung and Nissan was complementary and could satisfy both companies practically. Nissan owned car-specific, R&D and operational capability, whereas Samsung had non car-specific, headquarters level capability.⁸⁾

In this context, what made the agreement relational was the fact that this agreement was a manifestation of the cooperative spirit and the importance of establishing a long-term strategic relationship between the two companies. It states in the agreement that:

8) The complementary capabilities of Nissan and Samsung are further discussed in the last part of this Section 3.3.

...both parties believe that it is in their common interests to establish a long-term strategic cooperative relationship envisaging a global and complementary collaboration for long-term mutual benefit...

Both companies understood the significance of cooperation for developing the first product of Samsung as the initial step in such a cooperative relationship. Officially, the agreement was recorded as one of the three most significant contracts that Nissan had been engaged in up to the mid-1990s.⁹⁾ Also, as an indication of such commitment, the

annual reports of Nissan stressed the nature of the cooperation and the actual progress of the project with Samsung from 1996 to 1998 consecutively.

Nissan's president Yoshifumi Tsuji even stated advertently¹⁰⁾ that:

Samsung must grow as a strong competitor (of Nissan) as early as possible. Otherwise, it will be a trouble to Nissan.

In order to implement the cooperative spirit manifested in the agreement, the two companies developed various relationships at

〈Table 8〉 Estimated Payments Made by Samsung to Nissan

Royalty	190.4
Initial Royalty and Technical Assistance	114.5
Running Royalty ('98 to '05)	75.9
Planning Fees for Plant Construction	11.5
Support for the Dispatched Nissan Engineers	72.3
Training Fees Charged for Samsung Employees	24
Payment for Zig and Die Manufacturing to Nissan Koki	170.1
Others	9.2
Total	477.5

Note: Units in hundred million Yen.

Source: The Technical Assistance and License Agreement.

Internal Data from Samsung and RSM.

Korea Automobile Manufacturers Association (KAMA) Data.

Key assumption for calculation

1. Running Royalty was paid for the sales of 391,350 unit SM5 cars.
2. The base number of dispatched Nissan engineers was 205.
3. The base number of Samsung trainees at Nissan was 1,100.
4. Others include charges for R&D Engineering support.

9) Source: Yuka Shoken Hokokusho (Report to the Ministry of Finance) issued by the Ministry of Finance, Japan.

10) The statement was made at the first 'Nissan-Samsung Top Management Exchange Meeting' in March 1995 in Seoul (source: internal Samsung meeting minutes).

different levels.

First, in order to reinforce the cooperative relationship in the top management level, Samsung and Nissan organized a biannual top management level meeting from March 1995 to be held in Korea and Japan alternately. The meeting, called the 'Top Management Exchange Meeting', was designed to develop a commitment to long-term cooperation, to coordinate issues to resolve, to understand each other's practice and to facilitate personnel exchange. For example, Samsung executives visited Nissan's major overseas operations in the U.S.A., Asia and Europe in 1995 and more than 50 Samsung executives were sent to the assembly lines of Nissan plants for 2 weeks. The total number of 40 Nissan executives and managers also visited Korea twice in order to enhance the understanding of Korea's infrastructure. In detail, the first Top Management Exchange Meeting decided to add a 2.5 litre engine on a model to be developed and already started to discuss the second model to be introduced from Nissan in 2000. Recruiting advisers from the former Nissan executives, training Samsung employees at Nissan plants and dispatching Nissan engineers to Samsung were the main agenda that were discussed as well. Lasting until the 8th meeting in 1998 in Tokyo, the meeting not only contributed to enhancing the level of cooperation between the two companies, but also sent a strong message of

the existence of trust between the companies to all the employees.

In addition to the meetings organized between the top management, the chairman of the Samsung group additionally used to meet Nissan's top management. The meetings were held between the chairman of Samsung and the past and present chairman of Nissan. In 1995 and 1996, there were three meetings held to deepen the cooperative relationship by exchanging global views and personal experiences. Operational issues were not the topics. Nevertheless, the meeting served to cement the cooperative relationship between the two companies and also eventually had a positive, implicit impact on business issues.

Second, in order to coordinate and follow up the operational issues arising in the joint development project, Nissan opened its offices called 'Samsung Project Preparation Office' first in January 1995 and 'Nissan's Korea Office' in September 1995. Further, Nissan's senior manager joined Samsung's 'Project Management Office' to work together with Samsung. As well as planning the Nissan engineers' dispatch to Samsung and the Samsung employees' training at Nissan, it contributed to better communication between the companies by collecting and giving feedback of the opinions raised by Nissan to Samsung. These offices were fully dedicated to facilitating cooperation between the two companies.

Third, in an effort to encourage effective learning from Nissan, all the employees at Samsung learned the Japanese language without exception. Using the same language with Nissan people was a huge asset to Samsung that facilitated better communication and therefore became the basis of a better relationship. A massive-scale training programme was one of the highlights of learning-based cooperation between Samsung and Nissan. The training programme led more than 1,100 inexperienced Samsung line workers to the assembly lines of Nissan's eight plants for about 3 to 6 months. The programme became the basis of making Nissan practice embedded in Samsung employees. Yet another good example of systematic learning was the programme called 'Nissan Tutor and Samsung Student'. The main purpose of this programme was to match each Nissan engineer who was dispatched to Samsung, who became a tutor, with a Samsung engineer, who became his student, designated officially by Samsung. Being teamed up with a Nissan engineer, a student engineer was supposed not only to learn professional knowledge and know-how from his tutor, but also how to build personal relationships informally. In order to make the programme effective, Samsung even reimbursed the expenses incurred for social activities between tutor and student. Samsung also provided the best available facilities and fringe benefits to

dispatched engineers and technicians by Nissan. They interpreted all these efforts made by Samsung as a signal of Samsung's sincere attitude and willingness to respect and learn from Nissan. This comprehensive understanding of each other and the respectful attitude provided the background of a reinforced cooperative relationship and thus of trust between the two companies.

In summary, the process of developing a cooperative relationship between Nissan and Samsung indicates that the two companies collaborated not only for short-term benefits but also for long-term ends. Samsung learned from Nissan systematically not so much how to compete with Nissan as how to be able to complement with each other in the long run.

Samsung's complementary capabilities lay in general management and electronics rather than in passenger car industry-specific knowledge and experience. As one of the largest chaebols in Korea, Samsung diversified its businesses in many different industries. Samsung had to develop its own general management skills and capabilities, especially in the areas of personnel and financial management, in order to meet the various demands required for new businesses. The characteristics of general management capabilities are effectiveness and mobility to attract and use its human and financial resources within Samsung. Employees' strong commitment to the company was at the heart of Samsung's

personnel management based on intensive education and training. When Samsung established SMI in March 1995, most of the white-collar jobs were filled with the transferred employees from the affiliates of Samsung. Similarly, Samsung's affiliates mobilised their financial resources to inject capital into SMI. For example, 5 Samsung affiliate companies participated in SMI as shareholders, accounting for 69 per cent of the total paid-in capital. Also, more than 7 Samsung affiliates made loans to SMI of more than 1.2 trillion Won, equivalent to USD 1 billion, as of July 1999. Moreover, the fact that Samsung had competitive advantages in electronics was expected to be another source of complementary capability. The weight and importance of electronics technology in the passenger car industry increased over time and was predicted to grow as a source of competitive advantages. Nissan would have considered that Samsung could become a reliable partner to work with as the production base for supplying not only electronics components but also small cars to Nissan in the long run. Samsung workers, who were trained by Nissan with relatively competitive labour costs compared to those of Japan, were a competitive advantage that Samsung could provide for Nissan as a complementary capability.

By contrast, Nissan's complementary capabilities lay in its operational level engineering capability and experiences in the pas-

senger car industry in which Samsung was a novice. As a consequence, Nissan's assistance and support for SMI was centred on operational areas, such as new product development, parts localisation, production and operating passenger car plant.

Thus, Proposition 1, which states that if the nature of the relationship between partners is to internalise complementary capabilities, more effective cooperation between partners will emerge based on mutual learning, is supported.

The scope of cooperation between Nissan and Samsung ranged from upstream activities, such as new product development and supplier development to downstream activities including manufacturing and marketing. Further, the scale of the cooperation was unprecedentedly massive and the nature of the tasks was risky. The tasks entailed constructing the plant from the green-field, building supplier network from scratch and training inexperienced Samsung workers. Also, the tasks required effective communication vertically within each hierarchy and horizontally between companies and departments as well. Thus, the task complexity of cooperation between Nissan and Samsung was very high. Corporate level commitment and support played important roles in motivating Nissan to accelerate the transfer of Nissan practices to Samsung.

Under the circumstances, it would not have

been possible for Samsung to launch the first product without relations of trust or goodwill with Nissan. Thus, Proposition 2, which states that trust between partners breeds cooperation regardless of the level of task complexity is supported.

IV. Changes of Perception on Cooperation

The perception of the cooperation between Samsung and Nissan has changed over time. In particular, during the period between 1993 and 1998, Samsung and Nissan developed the intensive cooperative relationship and trust based on the Technical Assistance and License Agreement. Nevertheless, both companies nurtured cooperation along with corporate level commitment and support, combined with systematic learning and teaching. By contrast, the relationship between Samsung and Nissan seemed to come to an end when SMI went into court receiver-ship and Nissan formed a strategic alliance with Renault in 1999. However, following the establishment of RSM the new phase of cooperation between RSM and Nissan emerged in 2000. Although Samsung remains as the shareholder of RSM the influence of

Samsung on RSM is minimal, whereas Renault mainly controls RSM and treats it as one of the overseas production bases of Renault. As a consequence, the corporate level relationship between Samsung and Nissan has been transformed into the relationship between RSM and Nissan.

In an interview with the Korean media¹¹⁾ in December 1996, Nissan's president Yoshikazu Hanawa stated his dual perception of cooperation with Samsung that:

It is with mixed feelings. We wish Samsung could be independent technologically as early as possible. At the same time, we are a bit concerned if Samsung will become a strong competitor of Nissan in the future. I am confident that the cooperative relationship between the two companies is perfectly flawless. Nevertheless, technology transfer is a complicated issue that requires balance between the two parties. I hope the two companies will continue to grow their cooperative relationship further even after launching Samsung's first product.

The above statement indicates that cooperation between Nissan and Samsung was satisfactory to Nissan and it was looking forward to developing a further cooperative relationship in the future. This perception was possible because Nissan had been convinced that Samsung had made its best

11) The Dong-A Ilbo, December 1996, Tokyo.

efforts to learn from Nissan, whilst providing Nissan with something more than it could expect according to the agreement. As a consequence, the perception that Samsung was reliable and predictable as a partner in cooperation must have formed a certain level of goodwill trust. At the same time, as is expressed by Yoshikazu Hanawa above, the trust between Nissan and Samsung still could not entirely eliminate the potential fear of each partner's opportunism. Nonetheless, without trust, it would not have been possible for Nissan to transfer the latest technology to Samsung and to send them more than 200 engineers. Tetsuo Tabata, Senior Executive Managing Director of Overseas Operation Division, once emphasized in 1996 the significance of the number of engineers sent to Samsung. Dispatching more than 200 Nissan engineers to Samsung, ranging from engine to purchasing, was the biggest assistance ever, in terms of scale, which outnumbered its own projects in the U.S.A. and the U.K.

However, after Renault took an equity stake in what had been SMI, when Nissan and RSM resumed cooperation in 2000 for the development of a second product, i.e. SM3, by signing the technical license agreement, the scope of, as well as the attitude towards, cooperation changed drastically. As the comparison between the agreements of SM5 and SM3 in Section 3 clarifies, compared to the earlier cooperation when Nissan and

Samsung achieved more than what had been set out in the agreement, the assistance of Nissan for RSM was strictly limited to the areas that were agreed between Nissan and RSM. The arm's length relationship replaced the former relationship that was built on corporate level commitment and trust. Cooperation between Nissan and RSM tends to focus on transferring concrete information and skills and the functional area of cooperation was limited to manufacturing. In contrast, the cooperation between Nissan and Samsung aimed at transferring capability, including know-how and embedded Nissan's practice through learning.

In part, one reason for these changes is because the nature of cooperation between Nissan and RSM stems from production technology transfer in the manufacturing area. However, it is also worthwhile noting that Nissan's perception of cooperation with RSM does not build on the cooperative relationship that existed between Nissan and Samsung. Nissan's perception of cooperation with RSM is not the same as that with Samsung any more. Hidenori Tsukamoto, a Senior Manager of Nissan, who has been involved in the projects for Samsung and RSM since 1998, notes how Nissan's perception changed about RSM.

RSM is one of the companies under the Alliance between Renault and Nissan. In particular, after Renault chairman's declaration in the Alliance top management meeting in

2000 that RSM is a part of Renault, we [Nissan] treat RSM as a part of Renault.

In fact, as a member of the Alliance between Renault and Nissan, RSM has been in a favourable position to access Nissan. Especially, when RSM requests technical information or documents, RSM can access those without paying extra fees or charges according to the Alliance guideline that was designed to lower transaction costs internally within the Alliance companies. For example, Nissan provided RSM with its technical information and drawings, which were required for the SM3 project even before the technical license agreement between RSM and Nissan was signed. However, at the same time, RSM could not expect the same level of support and assistance that Nissan had provided for Samsung because Nissan saw RSM as part of Renault paying it relatively less attention than Samsung. The trust built between Nissan and Samsung was not transferred to the relationship between Nissan and RSM. Akira Akashi, the head of Renault Samsung Technical Centre (RSTC) who was transferred from Nissan in 2002, confirms further that Nissan's perspective on cooperation with RSM is not related to the past cooperative relationship between Nissan and Samsung. He stated¹²⁾ that:

Nissan has nothing to do with RSM. Basically, if we [RSM] ask for some help, they [Nissan] are always negative because Nissan is focusing on China (rather than Korea through RSM). I understand that this company is not Nissan's interest.

The cooperation between Nissan and Samsung that had once pervaded trust turned to the minimal cooperation within the structure of the Alliance between Renault and Nissan. Christian Husson, Senior Vice-President and General Counsel of Renault, recalled¹³⁾ Nissan's perception of Renault's take-over of SMI that:

Nissan was reluctant about Renault's intention to take over SMI. Nissan was concerned about its potential technology leakage to Renault through RSM. Nissan was worried about Renault's use of the Nissan-Samsung agreement. Nissan said the plate is full for the Alliance between Renault and Nissan. Do not play in Nissan's turf and take our technology under the umbrella of the Alliance. Nissan was concerned about potential competition between Nissan and RSM in the Chinese market in the long term.

Under the control of Renault, what RSM is concerned about is not so much with absorbing Nissan's practice in the areas except for manufacturing as receiving Nissan's support to launch the product developed by Nissan at RSM.

12) The interview was held on May 13, 2003 at RSTC.

13) The interview was held on March 25, 2003 in Paris.

Further, unlike the corporate level commitment and support between Nissan and Samsung, the corporate level communication between Nissan and RSM is held through 'Korea cross company team (CCT)'. On behalf of RSM, C.E.O. and two or three senior executives participate in the meeting, whereas a senior executive and two senior managers from Asia-Oceania Sales and Marketing Department represent the interest of Nissan. In principle, the Korea sub-CCT meeting is more frequently held, i.e. monthly, than the Top Management Exchange Meeting between Nissan and Samsung, i.e. every six months. Nevertheless, the Korea sub-CCT meeting does not draw corporate level commitment and support from Nissan mainly because it remains the more business oriented meeting that discusses practical conditions to implement product development projects. By contrast, the Top Management Exchange Meeting between Nissan and Samsung played roles in coordinating not only business issues, but also in promoting corporate level commitments and ties, generating a long-term reciprocal cooperative spirit.

In summary, the changes of perception on cooperation between Nissan and Samsung, and Nissan and RSM indicate how the changes of ownership of SMI from Samsung to Renault affected the nature of the cooperation with Nissan. Thus, Proposition 3, which states that changing patterns of owner-

ship and control over time influence the nature of cooperation between partners is supported.

Meanwhile, the relationship between Nissan and Samsung indicates that effective cooperation can be achieved when trust exists. Still, the relationship between Nissan and RSM indicates that cooperation can be achieved even without trust between the companies when a control mechanism, such as the Alliance guideline, works. Thus, Proposition 4, which states that trust is a necessary, but not a sufficient, condition for cooperation is partly supported.

V. Summary and Conclusion

This paper has examined the dynamic process of cooperation between Nissan and Samsung, and Nissan and RSM, respectively. The nature of the cooperation between Nissan and Samsung has changed over time. The cooperation between Nissan and Samsung was relational, whereas that between Nissan and RSM is transactional. Nissan and Samsung developed a relationship from which both could benefit in the long run, whereas the relationship between Nissan and RSM is based on the short-term transaction of specific functional information and skills. Corporate level commitment and learning are

less intensive between Nissan and RSM compared to those between Nissan and Samsung. As a result of the investigation of the relationships between Nissan and Samsung, and between Nissan and RSM, propositions 1, 2, 3 and 4 are all supported.

The cooperative relationship between Nissan and Samsung emerged based on the Technical Assistance and License Agreement. The agreement was made as a result of Samsung's continuous effort to partner with Nissan and, in part, Nissan's deteriorating financial performance in the early 1990s made Nissan interested in cooperation with Samsung. The relationship between Nissan and Samsung elucidates the fact that the corporate level commitment is essential for developing long-term cooperation. Such a cooperative relationship facilitated the agreement to carry out a wide range of tasks from plant construction to plant management in order to launch the first passenger car of Samsung.

The partnership between Nissan and Samsung indicates that effective cooperation can be achieved when certain conditions are satisfied. Based on complementary capabilities, sharing a long-term corporate commitment foreseeing mutual benefits between Nissan and Samsung provided a common ground to develop a cooperative relationship. Also, corporate level support and concrete artefacts were equally critical elements to build trust that cements cooperation. In association with a systematic

learning programme, Samsung's strong willingness to learn from Nissan's practice contributed to developing a cooperative relationship. A regular 'Top Management Exchange Meeting', which was held twice a year, sent a signal to the two companies that trust between the companies was robust.

Changes in ownership of the Korean car company have transformed the nature of the relationship and cooperation between the partners. Similarly, trust between companies may erode quickly as the environment changes. As can be seen in the case of cooperation between Nissan and RSM, trust is easily broken, especially when corporate commitment is not present and the same level of inter-personal relationship that was developed in the past no longer exists. Learning plays an important role in developing trust because it stimulates more communication between people and enables them to share more knowledge and information in common. As a consequence, less learning is likely to lead to a weakened inter-personal relationship and trust between the two companies.

Further, cooperation between Nissan and RSM indicates that effective cooperation arises when the capabilities of the partner companies are complementary. Unlike in the case of the inter-firm cooperation between Nissan and Samsung, the relationship between Nissan and RSM is neither reciprocal nor balanced. In part, the nature of the

cooperation between Nissan and RSM is narrowly defined for RSM to induce Nissan's support in a specific area, i.e. manufacturing, where Nissan has competitive advantages. However, from Nissan's perspective, significant benefits residing at RSM are neither recognised clearly nor can be obtained in return for providing its technology, except for royalty income. Nevertheless, complementarity itself is not a sufficient condition to breed the trust that is one of the conditions required to accomplish effective cooperation. Based on the recognition of complementarity, a mutually supportive reciprocal relationship between top management and intensive learning has a positive impact on enhancing the level of trust that, in turn, promotes effective cooperation as a result.

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삼성과 닛산의 협력전개 과정에 대한 연구: 삼성자동차 사례

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요 약

합작회사 제휴 기업간 효율적인 협력을 증진시키는 요인은 무엇인가? 기업간, 부서간 협력은 시간이 경과함에 따라 어떤 식으로 발전해 가는가? 본 논문은 제휴전략, 학습, 신뢰와 협력에 관련된 이론의 상호연관성에 대한 시사점을 제공한다. 협력은 제휴의 목적, 소유권과 관리, 직무의 복잡성, 조직 구조 및 절차의 상이성, 신뢰 여부 등에 의해서 영향을 받는다. 본 연구는 인류학에서 사용하는 질적 연구방법론(참여 관찰, 인터뷰, 문서 분석 등)을 채택하여 3년여에 걸친 현장 연구와 계약서 검토, 인터뷰 등을 바탕으로 작성되었다. 따라서, 실제 기업간, 부서간 상호작용에 대해 좀 더 깊이 있게 이해함으로써 인과관계 및 과정의 본질을 밝히고자 하였다.

표면적으로는 르노삼성이라는 단일회사에 초점을 맞췄으나, 삼성, 닛산, 르노 등 3개 회사의 연속된 신제품 개발 프로젝트를 통한 협력 전개 과정을 비교 분석하였다. 첫째, IJV의 제휴 기업간 상호보완적 역할은 초기단계에서 효율적인 협력을 위한 필요조건이지만 충분조건은 아니다. 실제로, 장기적이고 효과적인 협력 관계를 유지하기 위해서는 호혜주의 및 상호학습의 분위기를 만들어가는 것이 중요하다. 한편, 소유권과 통제권은 합작회사가 모회사의 조직구조나 (의사결정) 절차를 닮아 가는데 있어 기업간 협력관계에 직접적인 영향을 준다. 하지만, 삼성과 닛산의 사례가 보여주듯 소유권이 효율적인 협력관계 구축에 꼭 필요한 전제조건은 아니다. 둘째, 효과적인 협력관계 구축을 위해서는 신뢰관계 형성이 매우 중요하다. 파트너 기업 또는 부서간 새로운 협력과정을 개발, 구축해 가는 것은 필요하다. 왜냐하면 신뢰관계를 쌓아가는데 기초가 되기 때문이다. 전사적 차원의 의지와 학습은 기업간 신뢰관계 구축에 매우 중요한 역할을 한다. 전사적인 협력 의지는 개인간 관계에서 비롯되며 부서간 신뢰가 싹트도록 해준다. 부서간 신뢰관계는 파트너 기업간 신뢰관계가 약해지는 경우에도 상호 학습과 비공식적인 인간관계가 유지되는 한 계속 이어질 수 있다. 셋째, 합작회사 내부적으로 신제품을 개발하는 경우, 모회사로부터의 시차없는 기술이전의 효율성에도 불구하고 합작회사의 조직 역량이 뒷받침 되지 않을 경우 기술이전의 효과가 없어진다. 따라서, 모회사의 지원과 관리 가능한 신제품을 모회사로부터 이전 받는 것이 합작사의 성공을 위해서는 매우 중요하다. 모회사와 합작자회사의 조직구조와 (의사결정)과정이 유사할 경우 상호협력에 긍정적인 영향을 준다.

주제어: 협력, 신뢰, 소유권, 국제합작법인, 신제품개발, 자동차 산업

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